

# **ANNUAL ACCOUNTABILITY REPORT**

**FOR FISCAL YEAR 2001**

**GRADY L. PATTERSON, JR.  
STATE TREASURER**

## **I. EXECUTIVE SUMMARY**

Major accomplishments for the State Treasurer’s Office (STO) during FY01 were:

- ◆ Out-performance of benchmarks in investment of State, Local and Retirement Funds
- ◆ Securitization of Tobacco Settlement Funds
- ◆ Implementation of the long awaited Electronic Vendor Payment System
- ◆ Passage of the Tuition Savings Plan
- ◆ Overhaul of the agency web-site to include more online services
- ◆ Meeting other statutorial and custodial responsibilities of the office with reduced resources.

The program results on pages 21-34 demonstrate the continued trends of this office in increasing timeliness, efficiency and customer focus in the delivery of services.

## **MISSION STATEMENT**

The mission of the State Treasurer’s Office is to serve the citizens of South Carolina by providing the most efficient and effective banking and financial management services for State Government.

To this end, the State Treasurer and his professional, responsive staff will utilize a vast network of resources, industry knowledge and technology to provide high quality service in the areas of: receipt and disbursement of funds; investment and cash management; debt issuance and debt service; management of all State banking relations; administration of the Unclaimed Property Program and the Tuition Prepayment Program; and provide advice and counsel to local governments on issues related to investments, debt and other fiscal matters.

## **VALUES**

The values of the office are courtesy, responsiveness, hard work, initiative, accuracy, professionalism, and integrity.

## **STRATEGIC GOALS**

We have established priorities for maximum utilization of available technological resources to enhance, improve and assure the reliability and accountability of the State’s financial resources. A second priority is to have a well-trained and engaged workforce, so that each member of the staff is properly equipped, trained, and enabled to perform their job with excellence. Current year emphasis was on streamlining processes and increasing customer focus. Human Resource efforts were focused on retaining the work force and assuring adequate resources to accomplish our mission with reduced funds.

## **BARRIERS TO SUCCESS**

The financial stress under which the office operated for the second half of the fiscal year, continuing into the current fiscal year, is expected to severely limit the opportunities for advances in technology, and professional training for the staff. Planned technology upgrades have already been postponed and very few resources will be available for upgrades in the coming year.

The financial challenges can have positive results in some forced streamlining of processes, and prioritization of efforts.

The morale of the work force is of great concern to the Leadership and will require care and attention as we expect current staff to do more work with few tangible rewards in the coming year. Intangible rewards for the staff will be exposure to new work within the agency, recognition of staff potential, increased teamwork to meet growing demands, and recognition of hard work and initiative.

Hopefully the customer will continue to be a winner as we seek better ways to deliver service. Usually we find that automation efforts result in win-win situations for the customer and the office as: more efficient methods of providing service, shortened response times, and improved accuracy. Although some automation projects will inevitably have to be postponed, those driven by outside vendors and service providers such as banks and brokers, and federal government requirements will have to be given priority.

Where customer needs can be satisfied with enhanced internet delivery of service, requiring less staff interaction and programming resources, we expect to be able to comply.

Any additional responsibilities added to the office through legislation could cause difficulties in meeting our strategic goals.

## **II. BUSINESS OVERVIEW**

The State Treasurer’s Office has 72.75 FTE’s (including 12.60 from other funds). As of June 30, 2001 the office had 65 permanent employees (10 paid by other funds) and 4 temporary employees. 6 employees work a reduced hour schedule.

The office is located on the 1<sup>st</sup> and 2<sup>nd</sup> floors of the Wade Hampton Office Building.

The expenditure/appropriation chart that follows outlines the major spending categories of the budget:

### **Base Budget Expenditures and Appropriations**

	<b>99-00 Actual Expenditures</b>		<b>00-01 Actual Expenditures</b>		<b>01-02 Appropriations Act</b>	
<b><u>Major Budget Categories</u></b>	<b>Total Funds</b>	<b>General Funds</b>	<b>Total Funds</b>	<b>General Funds</b>	<b>Total Funds</b>	<b>General Funds</b>
Personal Service	2,735,846	2,328,675	2,932,596	2,431,990	2,815,230	2,228,551
Other Operating	2,939,323	549,505	9,156,980	1,522,549	1,689,803	465,299
Special Items					6,016,250	
Permanent Improvements						
Case Services						
Distributions To Subdivisions						
Fringe Benefits	642,044	550,103	730,305	599,919	775,279	608,515
Non-recurring	119,350					
<b>Total</b>	<b>\$6,436,563</b>	<b>\$3,428,283</b>	<b>\$12,819,881</b>	<b>\$4,554,458</b>	<b>\$11,296,562</b>	<b>\$3,302,365</b>

(1)

(2)

(1) Includes \$6.8 million for pay-off of Installment Prepayment Program notes refinanced.

(2) Includes \$900,000 expenditures related to the Student Loan Corporation - Career Changers program.

#### **Other Expenditures**

<b>Source Of Funds</b>	<b>99-00 Actual Expenditures</b>	<b>00-01 Actual Expenditures</b>
Supplemental Bills	135,372,403	147,633,887
Capital Reserve Funds		
Bonds		

Key customers of the State Treasurer’s Office are: state agencies, local governments, state employees and retirees, the state’s vendors, taxpayers, holders of the State’s Mini-bonds, owners and beneficiaries of Tuition Prepayment Accounts, the Legislature, and the citizens of South Carolina.

Key suppliers are other state agencies, banks and other financial service providers, the administrator of Tuition Prepayment Services, vendors of services and supplies, technology vendors, software providers and partners, holders of unclaimed property, and internet service providers.

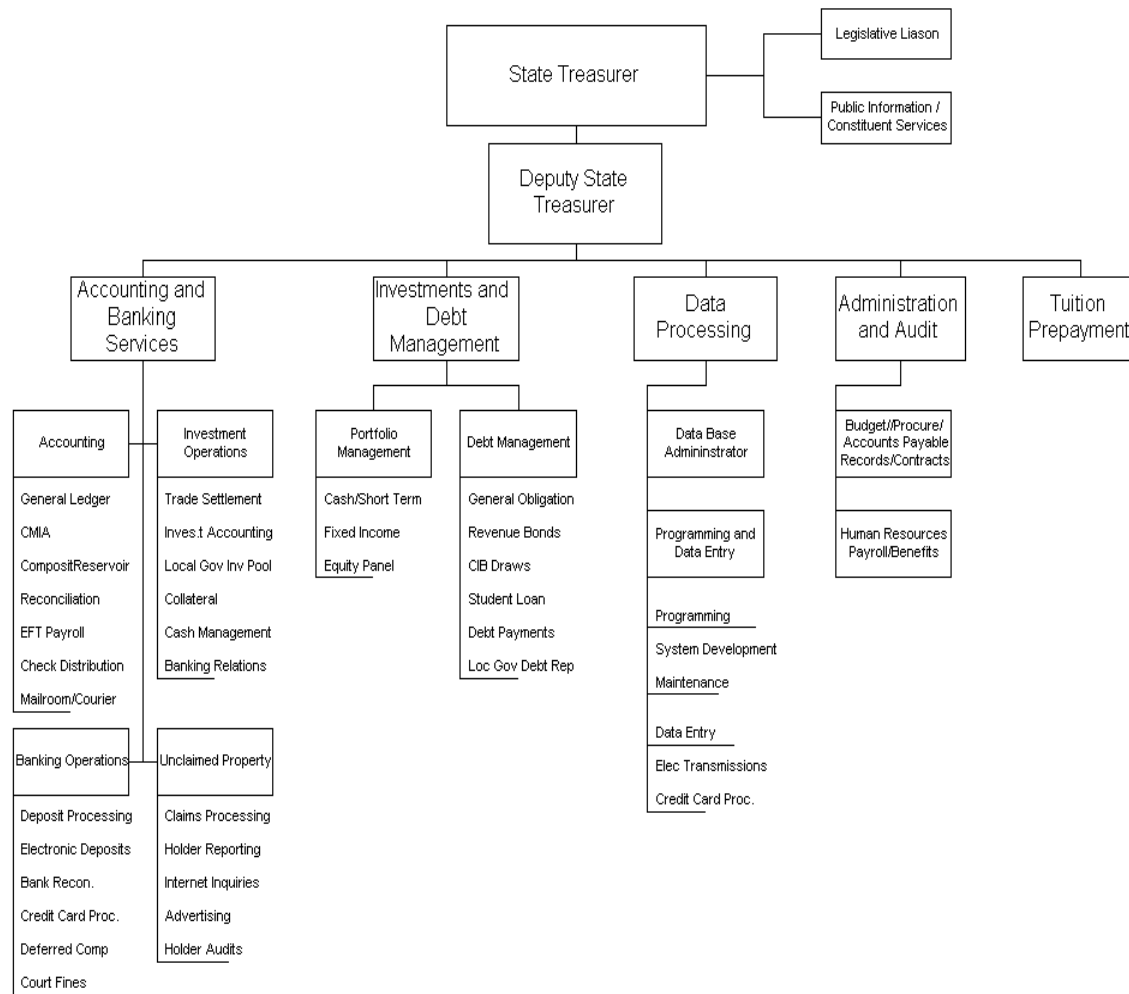
The major services of the agency are:

1. State-wide banking and accounting services for all agencies and institutions
2. Investment services for all state funds and the fixed income portion of Retirement System funds
3. Debt issuance and management services for general obligation, revenue, and special debt issues
4. Administration of the State’s Unclaimed Property Program, and
5. Administration of the Tuition Prepayment Program

The office is organized in 3 production/service divisions: Accounting and Banking (which includes Investment Operations and Unclaimed Property), Investments and Debt, and Tuition Prepayment; and 3 support divisions: Administration, Data Processing, and Legislative and Constituent Services. The Executive Division oversees the functions of all divisions.

The organizational chart that follows indicates the primary functions of each division.

## State Treasurer's Office



### **III. MALCOLM BALDRIGE AWARD CRITERIA**

#### **1. LEADERSHIP**

The State Treasurer continues to work on the following priorities, which are aligned with the Governor’s stated goals:

- Support Education improvement through School Bonds, Mini-bonds, and administration of the Tuition Prepayment Program
- Bolster Economic Development through maintenance of the State’s AAA credit rating, and promotion of the State’s banking and financial expertise
- Promote Greater Efficiency and in Government by streamlining processes with an emphasis on customer service

Throughout this report, you will see examples of success in each of these priority areas.

In the past two years, the State Treasurer’s Office has issued \$500 million in School Facilities Bonds toward the goal of \$750 Million in 3 years. As the Treasurer’s top priority in January of 1999, School Facilities Bonds are providing much-needed funds to address a critical shortage of modern classrooms around the State. The bonds are secured with the State’s stellar credit rating meaning such huge projects are achieved without increasing taxes or fees. Better schools ensure that our children prepare for 21<sup>st</sup> Century jobs in 21<sup>st</sup> Century classrooms.

Since 1994, the State has issued \$79,220,200 in mini-bonds, from which proceeds have been used for State capital improvement projects such as college additions and renovations, prisons, and harbor dredging as authorized by the Legislature. The mini-bonds are a safe, tax-free investment that provide the citizens of South Carolina a vehicle for saving for their children’s and grandchildren’s college education or for their own retirement. The Program is a win-win proposition for the State and its citizens. While the State obtains funding for capital improvements, South Carolina citizens are offered an affordable means for educational savings and the benefit of capital improvements funded by the sale of the bonds.

On July 1, 2000, the South Carolina Tuition Prepayment Program (SCTPP) was transferred to the State Treasurer’s Office. The Tuition Prepayment Program guarantees that the money paid today will cover a child’s tuition at an in-state public school when the child is ready for college. As college costs continue to increase, SCTPP is a valuable and easy to use tool for families in planning for that expense. SCTPP helps provide the opportunity for children to go to college, gives parents a peace-of-mind that college can be affordable, simplifies the tuition invoicing process for the universities, and fosters the environment of higher education importance to statewide economic development.

During the 2001 Legislative session, the General Assembly approved the second college savings plan. The South Carolina College Investment Program (SCCIP) will complement SCTPP. It offers a flexible alternative to utilize the federal benefits afforded those families who choose to begin college savings programs early in a child’s life. This opportunity will be available to South Carolinians in early 2002.

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On the second priority, South Carolina continues to be one of only nine states with a AAA credit rating from two of the major rating firms in the nation. Maintenance of the AAA benefits the State through savings on borrowing and also has a trickle down effect to others entities in the State, such as school districts, who benefit from the State’s credit worthiness in their own borrowings.

In March 2001, South Carolina received the proceeds from the sale of Tobacco Bonds. The State Treasurer’s Office provided technical and industry expertise to the Tobacco Settlement Revenue Management Authority (TSRMA) which issued the bonds. The sale was the most successful tobacco issue ever. Proceeds of that issue will generate interest for the Health Care Trust, Tobacco Communities Trust, Economic Development and Local Government Funds.

The remaining portions of this report will demonstrate the strategies, processes, and measures the State Treasurer has implemented to guide the direction of the office toward more efficient, customer focused delivery of services.



## **2. STRATEGIC PLANNING**

We have identified harnessing new technology as the way to increase efficiency in a measurable and meaningful manner. Wherever constitutionally and statutorily possible, the State Treasurer’s Office is attempting to create a “paperless” work environment by capitalizing on new technologies. Our office has moved in that direction for the past three years.

This Strategic Planning Objective meets several requirements we identified prior to its implementation:

1. It aligns with our existing Mission Statement and meets the needs of those we serve.
2. It creates an environment of communication and innovation in which each employee can seek new ways to do mandated functions.
3. It gives the agency quicker response times (and eliminates the need for some responses) to customer needs.
4. By increasing efficiency we save money.
5. It gives the agency flexibility to address problems more quickly by assigning resources not available previously.
6. By meeting higher efficiency standards, the State Treasurer’s Office produces greater accuracy, responsiveness, and professionalism in its duties.

The Strategic Planning Objective is consistently moved forward by a monthly meeting of senior staff to analyze needs, performance, and air suggestions or concerns from staff and customers. Problems and possibilities are addressed through “teams” or committees that collect information and build an action plan.

One example is the BidSC program that was identified and implemented in a four-month period in 2000. Another example is the ongoing success of the Electronic Vendor Payment System, credit card processing, and other electronic banking initiatives.

Each and every job in the agency, from State Treasurer and senior staff to clerical and administrative assistants, can measure their performance against this objective. Contributions toward that end can usually be identified and implemented quickly – office bulletins and schedules are kept on the network; information on community events; training sessions; data entry and interaction with financial institutions and agencies – all have benefited against this benchmark.

The Strategic Planning Objective helps the State Treasurer’s Office by giving basic and measurable criteria to identify success – we are still building some of those measurements. As we move forward, our office continues to look for key areas that will help us move closer to a “paperless”, more efficient agency.

### **3. CUSTOMER FOCUS**

The State Treasurer’s Office relies on one-on-one information gathering to improve service to its customers. We do that through participation in conventions and forums, state fairs and senior citizens’ events, meetings with financial institutions and state agencies, as well as public meetings attended by the Treasurer and his staff. Requests and information garnered from these listening and learning opportunities allowed our office to tailor our services.

Throughout the State, the Treasurer’s Office deals with the public on a wide range of issues. Most often we receive inquiries on tax refund checks, paychecks, and deferred compensation questions, and requests about individual programs such as: Unclaimed Property, Tuition Prepayment, and Mini-Bonds.

In FY01, to address customer concerns more easily, and respond to questions more quickly, the State Treasurer’s Office redesigned its web-site. Citizens now can find a great deal of the information they need on-line. Most of our office programs are detailed on the site. The questions answered and information provided on the new site reflect the most frequently asked questions received by the Treasurer’s Office. Many times we can answer questions just by pointing a person to a specific page on our new web-site.

Over the past month, our Communications Director has received fifty-seven e-mailed constituent requests through the web-site, a baker’s dozen by phone, and only four by regular mail. That does not include questions that are directed to other areas within the Treasurer’s Office. Answers are normally transmitted in twenty-four to forty-eight hours. We have received hundreds of thousands of hits on our web-site (mostly inquiries into Unclaimed Property). Our office has made it a priority to continually make links, downloadable documents and information available to reduce costs and response times.

The State Treasurer’s web-site was designed with evolution in mind. Our office is still working to place some information on the site that will help agencies and local governments work with our office on-line instead of by fax and regular mail (which cost significantly more). We are also beginning to look at statutory changes that might allow information that was previously transmitted through paid advertisements to be posted on the site, instead. The format of the current site is adaptable to the future needs that will inevitably arise.

Legislative matters are handled through a dedicated staff available to provide research and serve as a resource on matters related to this office. Several issues required significant research and support during the 2001 legislative session, including securitization of Tobacco Settlement Funds, introduction of the Tuition Savings Plan, changes to court revenue collection and reporting requirements, updates to investment statutes, and the annual appropriation process including related debt issues.

Ongoing communication with State agencies provides feedback on how their requirements and expectations can be met. The office regularly participates in special projects to improve statewide processes. This year, representatives of the office continued to serve on committees studying electronic banking, GASB 34 implementation, and the entire court revenue process. Annually, the State Treasurer sponsors a Local Government Training seminar addressing matters

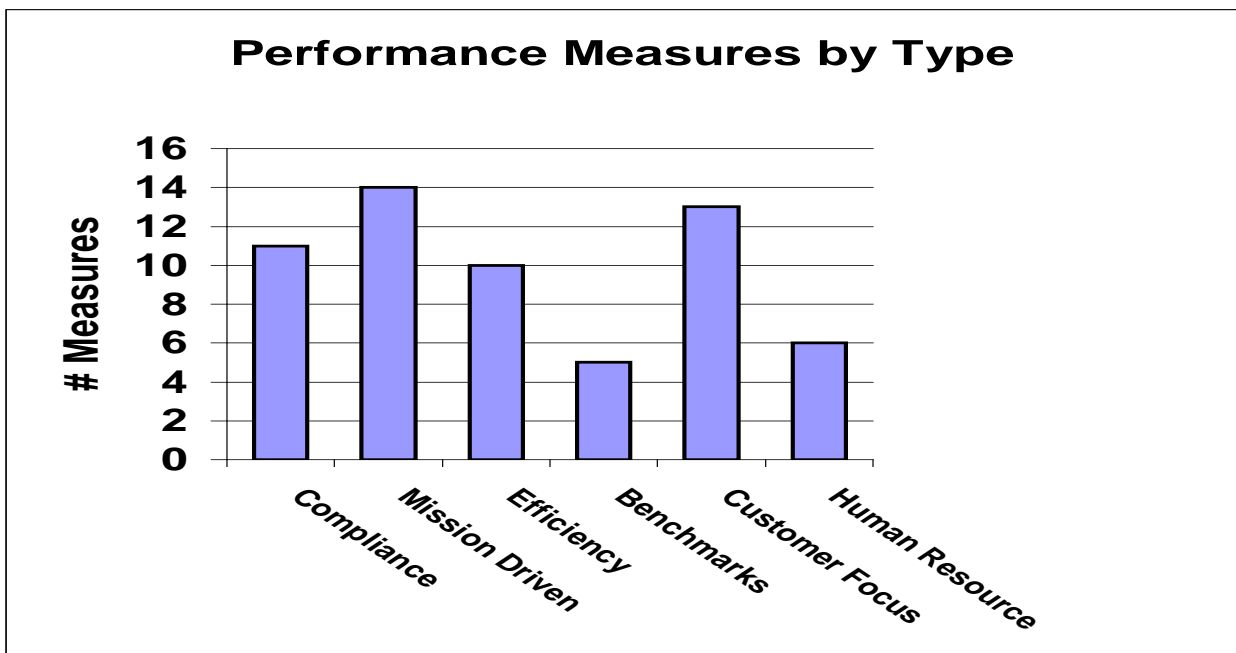
of interest to local governments such as investments, debt and banking issues. The office makes annual presentations to the Governmental Finance Officers Association at both their fall and spring conferences and uses those forums to not only disseminate information to others, but to receive information from these customers on how we can best serve them.

#### 4. INFORMATION AND ANALYSIS

Performance measures are incorporated in all operations of the office. The measures used are selected by management to:

1. Track compliance with legal requirements where applicable or with externally imposed requirements such as financial statement or regulatory compliance.
2. Monitor compliance with management directives, goals, or objectives
3. Measure success of efficiency measures implemented
4. Measure performance against industry benchmarks
5. Indicate trends in meeting customer expectations
6. Set priorities for resource allocation.

To date, 59 measurements have been implemented. The chart below shows the results of a recent inventory of measures indicating the dispersion of the measures over the 6 categories.



The chart shows a concentration of measures in the areas of compliance, mission accomplishment, and efficiency. The fact that a large number of measures were directed toward mission accomplishment and compliance is not surprising given the nature of the office where most functions are delegated to it by statute, with few programs at the discretion of the Treasurer.

The number of efficiency measures is indicative of the streamlining efforts adopted during the year and the emphasis on measuring their effectiveness.

The large number of customer oriented measures, evenly distributed among the programs, supports alignment with the annual emphasis on customer focus. We do recognize a shortage of customer satisfaction measures and are exploring effective ways to collect that information.

The shortage of benchmarking measures presents a challenge to management over the coming years. We recognize the need to develop appropriate benchmarks in critical service delivery areas. Our participation in national organizations such as National Association of State Auditors, Comptrollers and Treasurers (NASACT), National Association of State Treasurer’s (NAST), and other professional organizations in banking, cash management, investments, unclaimed property, and tuition prepayment provide exposure to “best practices”, many of which we have implemented. Our challenge will be to identify and formalize performance measures that indicate how we stack up. In certain cases resources have already been dedicated to the creation of benchmarks. In the area of banking, for instance, we have purchased a software package for the sole purpose of analyzing bank fees as a basis for managing those costs against a benchmark. In other areas, management is exploring certain industry-recognized benchmarks, such as the Municipal Market Data (MMD) Curve for bond rates, but they have yet to be implemented.

In the Human Resource category, we feel our emphasis on employee training, retention, and satisfaction (as outlined in the Human Focus discussion on pages 15 to 17) has been aided by the performance measures recently implemented, and we feel the results of those measures will be invaluable information in weathering any future cutbacks in resources.

Future plans are to use the results of the measurement inventory as a basis for balancing our score card across all measurement types in all divisions.

Accuracy of data is assured in most instances through reconciliation and confirmation with external sources:

- Statewide accounting data is reconciled daily to the Office of the Comptroller.
- Banking data is confirmed with the depository bank, custodian of investments, and the counter-party to transactions.
- The status of investment portfolios and performance results is measured by at least three external sources in addition to the internal process: the custodial Bank, and the independent investment advisor, and Investment Panel’s consultant for Retirement.
- Local Government Investment Pool transactions are confirmed with Pool participants through daily confirmations of transactions and monthly statements.
- Information on debt issues and payments is monitored and confirmed by bond counsel, financial advisors, independent paying agents, bond holders, and the institutions served.
- Internal administrative data such as budget status, procurement information, and payroll and personnel transactions is confirmed with statewide reporting systems and subjected to routine audit.

Overall the agency data is subjected to annual audit directly by at least 5 audit teams, including:

Statewide GAAP Audit Team for cash, investments, debt, and data processing control  
Agreed Upon Procedures audit of the agency  
Local Government Investment Pool GAAP audit  
Independent auditors for the South Carolina Retirement Systems  
Independent auditors for the Tobacco Authority

Indirectly, agency information is subjected to audit countless times through the audit confirmation process of the various agencies and institutions for which we serve as the State’s bank.

## **5. HUMAN RESOURCE FOCUS**

The agency is committed to promoting a culture of high performances, learning and employee gratification in a safe environment. The Senior Management Team portrays a forward thinking leadership in an ever-changing environment and has pledged to recruit highly qualified, ethical and diverse individuals. The State Treasurer and the Senior Management are committed as models of these beliefs. This culture is demonstrated in every facet of our business, externally and internally through an open-door policy, formal and informal communication, teamwork, equal treatment, customer focus and recognition.

With the State Treasurer’s emphasis on a well-trained, professional workforce, we have a one-on-one coaching program in place with our Senior Management to ensure that our future senior leadership will have the skills and training to excel. In the last five years the agency has experienced a shift toward professional skill levels. (See graph on page 34.) The Deputy State Treasurer meets monthly with the Senior Management Team to discuss agency issues, special projects, new processes and skill requirements. Also, staff is given the opportunity to request technical training to improve performance. This information is provided to the Human Resource Manager who compiles a detailed report of training needs and accomplishments. Administration determines whether training needs are provided in-house, provided in partnership with other agency(s) or available only by a vendor. Our Senior Management Team has been trained in 4<sup>th</sup> Generation Quality Management principles and Baldrige criteria. Two Senior Managers participated in Baldrige training at the end of the fiscal year and went on to conduct in-house training with the remaining Senior Management Team. The Senior Management Team identified measures that could be included in the next reporting period. We provided the opportunity for our mid-managers to participate in the Governor’s Office EXCEL (Exemplifying Character and Excellence through Leadership) Institute. One mid-manager received certification last year. The Human Resource Manager received national certification with PHR (Professional in Human Resources).

The State Treasurer is a member of the National Association of State Auditors, Comptrollers and Treasurers, the National Association of State Treasurers and the National Association for Unclaimed Property Administrators. He represents the State on the NASACT Constitution and By-Laws Committee and Dues and Membership Committee; NAST Debt Committee; and, NAUPA Host Committee.

Senior Management is recognized for their expertise nationally and statewide through their positions in many professional organizations. They serve on several statewide, multi-agency committees to improve processes, such as the new statewide accounting system, infrastructure bank and e-commerce and to design new programs pursuant to statute. We are frequently invited to make presentations to a broad base of audiences about Unclaimed Property, Tuition Pre-Payment, investments, debt, and banking issues.

Our work teams consist of 60.15 state funded FTE’s, 12.60 Other funded FTE’s and 4 temporary employees. In order for our work teams to be successful in meeting the rigid daily deadlines, the State Treasurer empowered employees to cross divisional lines for collaboration of service delivery issues, improvements and compliance issues. This works especially well for the annual

marketing period for the Mini-Bond program that consists of a group of individuals from five separate teams and for our Unclaimed Property Booth at the State Fair.

During this year the agency had 7 new hires and 8 terminations. The exit interviews reflected departure for a better individual job opportunity. We had no grievances filed and no worker’s compensation claims. The agency mandated a freeze on hiring in January of this year, which resulted in 8 vacancies, and the elimination of 4 temporary employees. The agency actively promotes flexible work schedules to more easily balance employees work and family demands. The part-time program has grown from 4 employees to 6 employees this year.

All new hires are offered an internal training course titled “All You Need to Know About the STO” and the strategic planning process. All supervisory staff participated in general Equal Employment Opportunity Information and Affirmative Action hiring practices. The training focused on some of the history of EEO law and provided supervisors critical information on how to eliminate unfair hiring practices. This is demonstrated in the fact that we have improved our overall ranking among all state agencies from 18<sup>th</sup> to 12<sup>th</sup> and our overall goal attainment moved from 91.8% to 93.2%. We feel this is a great accomplishment as we had only half of the opportunities in 2001 that were available in the prior year. We attribute this success to a recruiting strategy that has identified additional sources of candidates and ensured that we get a very diverse applicant pool.

Employees receive annual performance evaluations. At the beginning of each evaluation period, a planning stage document is given to each employee who outlines the duties of his/her position and identifies success criteria for the functions being performed. Throughout the evaluation period, supervisors informally meet with their employees and discuss ways in which they can improve their performance and are successful in their jobs. As a result, 45% of our staff received technical training such as Word, Excel, Project Management, and Job Scheduler to enhance their performance.

Cross training is promoted to enhance knowledge of service delivery processes. This allows employees to gain knowledge that results in better understanding of how employees’ efforts affect the delivery of services. The inability to hire has put an emphasis on cross training, utilization of knowledge and experience of existing staff. Naturally, our objective and focus during the year was to retain the current staff, therefore, a salary study was conducted in-house. This study included analyzing the salary of each employee as compared to the state’s averages for similar jobs throughout State Government. As a result of this study, 12 employees whose salaries were greater than 10% below the average were awarded pay increases ranging from 5% to 15% in order to bring their rate of pay in line with market averages.

Technology is the leading resource in communication, training and peak performance for our employees. Administration/Human Resources introduced an Employee Resource Guide that is available to all employees on the Agency’s Intranet. This guide includes all office policies and general information regarding agency policies, procedures, and all agency-wide forms. This Guide replaces a printed employee handbook and allows the agency to inform employees of any policy changes and procedural changes efficiently; and, eliminated the cost of printing.

In January 2001, the Administration staff conducted departmental meetings regarding several issues, and particularly to inform employees of the Reduction in Force policy and to discuss the budget concerns. As a result of the meetings, employees suggested ways for the agency to cut costs or eliminate areas of waste. One initiative recognized by the Administration Division was a need to improve the process for the agency’s primary telephone coverage due to dwindling resources. We contacted the Office of Information Services of the Budget and Control Board to put a tracking mechanism on this agency’s primary telephone numbers for a period of 3 months to determine what telephone numbers receive the most calls. The information clearly identified the need for one primary coverage point instead of three coverage points; therefore, we combined 3 areas of critical telephone coverage into one central location. This eliminated the need for temporary positions in two of those areas.

The State Treasurer’s Office actively supports community groups such as the United Way, the Good Health Appeal and the United Black Fund. We coordinate with other agencies in our building for health screenings, mammograms and blood donations. We are in the fourth year of participation in a program by the University of South Carolina, which allows students to obtain course credit by serving an internship with a state government agency. We are expanding this program to include “student-to-work” at the high school level. One particularly successful initiative this year was a journalism internship to work on the marketing for the Unclaimed Property Division called “Big Money Monday.” This provided a skilled assistance to the agency initiative and served as a recruitment opportunity for the future.



## **6. PROCESS MANAGEMENT**

Most of the processes in our 5 major production/service delivery areas are heavily automated and deadline driven.

In **Accounting and Banking**, deposits, distributions, reconciliations, and financial reporting are time sensitive processes with an external customer focus. Deadlines are imposed either by legal mandate, management policy, or customer expectations. In order to meet growing demands with existing or sometimes dwindling resources, managers must continually look for ways to better utilize automation for processing, verifying, and reporting information.

Systems tied to non-state entities are often driving forces for automation. Office systems are electronically tied to outside banks and service providers through electronic submission of data, credit card and Internet payment systems, electronic daily confirmations, and automated reconciliation systems.

During FY01, the State Treasurer’s Office completed the modification of the **Credit Card Processing System**, eliminating a third party processor, receiving data directly from the primary processor, and incorporating Internet credit card transactions into the system. Credit card transactions provide a convenience to the general public and an increase in sales and services, therefore the STO continues to explore ways to improve the flow of information and funds from credit card sales to the agencies utilizing this technology.

Likewise, the **Deposit Sweep System** for State Colleges and Universities offered as an option to the Automated Deposit System, allowed them to deposit their revenue directly into composite reservoir bank accounts rather than into the State’s general accounts. The Deposit Sweep System eliminates paper flow and improves timeliness and accuracy in processing State College and University revenues. It also expedites the availability of returned items and bank adjustments for college and university deposits, eliminating the STO as the middleman. 9 of the 10 Colleges and Universities have signed on to the program reducing the potential number of deposits processed by the STO by over 12,000 per year. Feedback from the colleges and universities has been very favorable.

Communication of information from state agencies to the STO has traditionally been paper intensive, however several strides have been made in the past few years to automate those processes, including introduction of the **Automated Deposits System** and **Electronic Vendor Payments**. Although the results are promising, implementation has been slower than expected, primarily attributable to lack of resources on the agencies’ side to program new systems, or lack of priority in allocating programming resources. The STO continues to promote these new systems and work closely with agencies to implement them as quickly as possible. We expect demand from the vendor community will drive the transition to electronic payments.

In the area of **Investments**, the office is linked by the latest technology to market information, brokers, investment advisors, custodial banks, and accounting systems. To obtain the best yield opportunities within the guidelines of approved investments, the State Treasurer’s Office maintains constant communication with securities professionals and uses on-line securities

quotation services. The Treasurer also receives expert advice from an independent investment advisory firm.

Implementation of the QED portfolio management system has allowed the office to incorporate equity investments of the Retirement Systems into the analysis and reporting systems and will provide compliance capabilities in the future. Once the Common Funds features of the system are fully tested, unitized accounting for the Retirement Funds will allow even greater efficiencies in the investment of those four funds.

BidSC, the quarterly internet auction process for bidding on Certificate of Deposits continues to be an efficient method of assuring the State the best rate on time deposit while allowing all financial institutions in the State an opportunity to bid for State deposits. In addition to the increase in return on the deposits, the system also provides an efficient method of communicating settlement information to the banks and financial institutions on those trades. Future plans include a partnering with QED, our portfolio management system, and MuniAuction, the provider of the web based system, to offer a seamless transfer of information from the MuniAuction system to the accounting system.

The overall objectives of the investment program for Retirement Funds are provided in the Statement of Investment Objectives, recommended by the Investment Panel and the State Treasurer, and adopted by the Budget & Control Board. An Annual Investment Plan, recommended by the Investment Panel and adopted by the Budget and Control Board, sets the annual objectives for the equity investments of the Retirement Funds. Objectives for investment of General and Other Funds are developed in conjunction with the state’s Investment Advisor and adopted by the State Treasurer. In addition to daily monitoring and communication with investment advisors, twice monthly investment update meetings are held with the Treasurer and investment staff to review market conditions and investment direction. Monthly performance reports assure the performance requirements are met.

In the area of Debt, the STO continues to use state of the art technology in advertising bond sales and accepting bids via the Internet thus saving printing and postage costs and broadening the universe of potential bidders.

Likewise, Debt payments are made electronically to the State’s paying agents assuring funds are available when payment is due.

In administering the Unclaimed Property Program, and the Tuition Prepayment Program, two programs involving direct interaction with the general citizenry, customer expectations and customer-oriented delivery systems are the driving forces. Internet access to data and services continues to be the focus. Both systems are managed through outside vendor software systems designed specifically for the industry. By outsourcing these unique systems, the programs are able to take advantage of upgrades and best practices applicable to other states at rates much less costly than in house systems.

In FY01, the UPP enhanced its web page, by adding the capability for claimants to print claim forms, thus reducing the cost of staff time to print and mail claim forms, telephone inquiries, and

the cost of associated supplies and postage. Claimants no longer have to wait for a claim form to come in the mail just to start the process.

The **support systems** of the office include Administration, Data Processing, Legislative Tracking, and Constituent Services. These systems are designed to assist the production areas by providing a well qualified work force, adequate funds to support the missions, efficient data processing systems, accurate and timely data for decision making, and information and opportunities for input on legislative matters and constituent concerns.

**7. BUSINESS RESULTS****Program Name:**            **Accounting and Banking**

<b>Program Cost:</b>	<u>FY 1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>
State Funds	\$1,495,455	\$1,550,164	\$1,011,302

<b>FTE's:</b>	25	26	20
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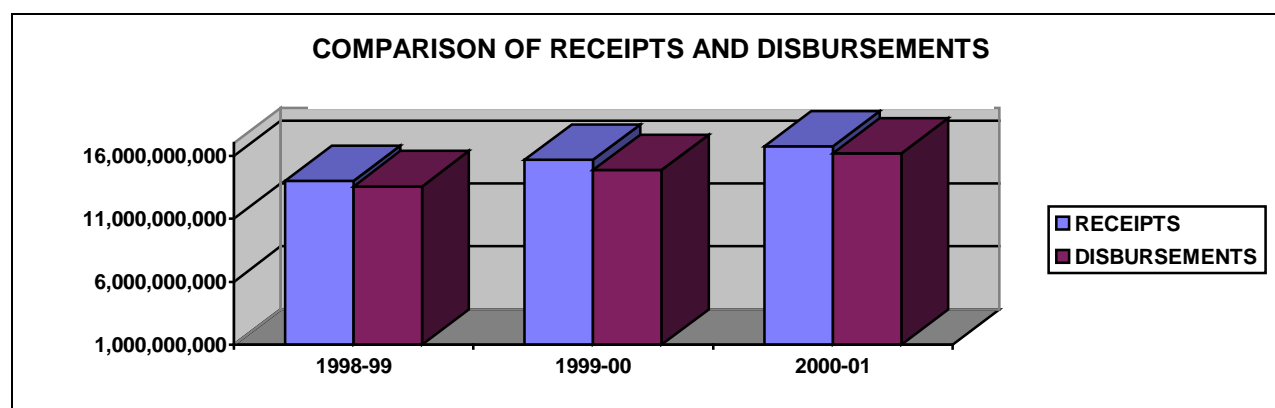
Note: Program costs and FTE's in this program for FY01 include only those costs and employees directly involved in the delivery of these services. Previous years included the cost of some functions not currently considered Accounting and Banking services.

**Program Goals:**

- Receive and disburse funds from all sources in a timely and accurate manner.
- Provide efficient and effective banking services for all state agencies and institutions as required.
- Conduct timely reconciliations of bank accounts throughout the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Distribute shared revenue according to statute.
- Receive and distribute Court Revenues according to the governing statutes.
- Manage the flow of deferred compensation funds from pay centers to the third party administrator assuring prompt posting of those funds to participant accounts.
- Analyze and provide input on budgetary and legislative matters related to statewide banking and accounting matters.

**Objectives:**

1. Record all deposits within 1 business day of receipt of information from the agencies.
2. Increase the number of agencies using the electronic deposit system from 4 to 10, adding at least one of the high-volume deposit agencies.
3. Disburse all funds within 24 hours of request by increasing the number of payments made electronically (thus improving accuracy, timeliness of payment, and reducing cost to process.)
4. Distribute Aid to Subdivisions as required by law between 20<sup>th</sup> and 25<sup>th</sup> of each month.
5. Reconcile all bank accounts of the state within 30 days of receipt of the bank information and reduce unrecorded deposits at June 30 to the audit tolerance for materiality of less than \$6 million.
6. Provide for the reporting and disbursement of existing and any new Court Revenues required by legislation.
7. Improve compliance with court revenue collection and reporting through redesign of reports and instructions, follow-up of delinquent reports, increased monitoring of local government audit reports and being responsive to requests for information or assistance.
8. Process all deferred compensation funds within 1 week of receipt by this office.
9. Review all proposed legislation related to banking and accounting matters, and provide feedback by the deadline to respond.

**Key Results:**

- 1) Despite a 2.4% growth in the number of manual deposits processed, increased use of electronic deposits coupled with a new “deposit sweep” process for Universities allowed existing staff to meet the goal of recording all deposits within 1 business day of receipt of the information from the agency.

<b>Receipts:</b>	<b><u>FY 99</u></b>	<b><u>FY 00</u></b>	<b><u>FY 01</u></b>
Manual STARS deposits	128,352 (86%)	139,692 (75%)	143,045 (76%)
Credit card deposits	11,748 ( 8%)	37,476 (20%)	28,146 (15%)
<u>ACH deposits</u>	<u>8,778 ( 6%)</u>	<u>8,226 ( 5%)</u>	<u>16,288 ( 9%)</u>
Total Deposits Processed	148,878 (100%)	185,394 (100%)	187,419 (100%)
FTE's in processing area	4	4	4

Deposits processed by Universities via Deposit Sweep System	12,852
# of Institutions on Deposit Sweep	9

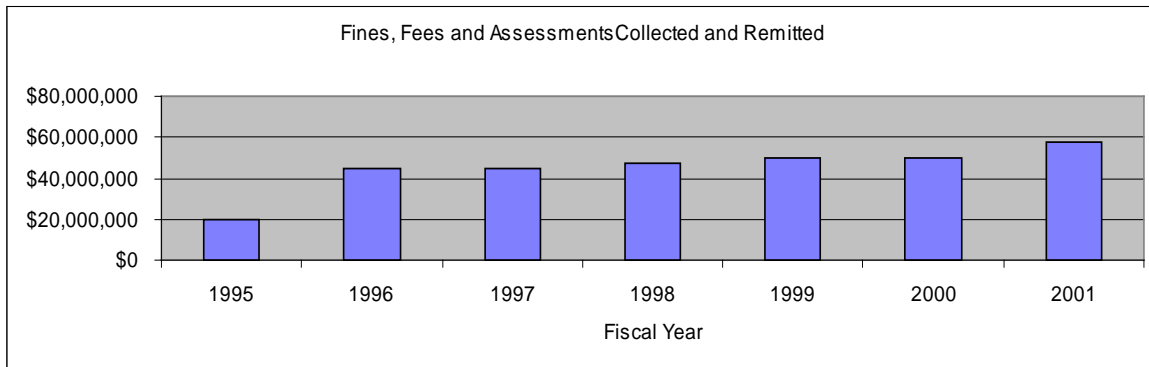
- 2) Since implementation of the Automated Deposit System at the end of fiscal year 2000, the number of agencies participating in FY 2001 did not grow as expected. A poll of the 10 high-volume deposit agencies revealed the following reasons for their lack of implementation:
- a) Postponed implementation due to installation of the State’s new accounting system for large agencies to avoid dual programming.
  - b) Internal projects have priority.
- In FY02 the STO will try a partnering approach to see if automated deposits can be a feature of the new accounting system, thus eliminating the need for individual agency customization.

- 3) The introduction of Electronic Vendor Payments, increased use of EFT payments, and expansion of the procurement card program (which reduces the number of individual disbursements required), allowed existing staff to process disbursements within the goal of 24 hours from request.

<b>Disbursements:</b>	<b><u>FY 99</u></b>	<b><u>FY 00</u></b>	<b><u>FY 01</u></b>
Paper checks processed	3,536,368 ( 75%)	3,300,086 ( 71%)	3,157,940 ( 70%)
<u>Electronic pmts processed</u>	<u>1,169,948 ( 25%)</u>	<u>1,345,948 ( 29%)</u>	<u>1,325,434 ( 30%)</u>
Total disbursements	4,706,316 (100%)	4,646,034 (100%)	4,483,374 (100%)
FTE's in processing area	4	4	4

- 4) All shared revenues were distributed according to State Treasurer’s Office policy between the 20th and 25th of the month in which distribution is required by statute.

- 5) Reconciliation time for depository accounts remained at 45 days on average, however, as a result of staff realignments implemented last fiscal year and current year automation efforts, unrecorded revenue was at a record low of \$2.3 million 45 days after June 30, (well below the audit tolerance level set) making funds available for program purposes on a more timely basis. All bank accounts for clearing checks were reconciled daily.
- 6) Two new court revenue requirements were implemented during the fiscal year. New forms and instructions concerning the changes were mailed to all County and Municipal Treasurers prior to the implementation date.



- 7) 177 local government audit reports were submitted to the State Treasurer’s Office this year compared to 12 the previous year. Delinquent reports were reduced from 17 last June 30 to only 9 this June 30. A segment on Court Revenue reporting was included in the State Treasurer’s Local Government Training Seminar and staff participated in a training session for new Clerks of Court. The STO also provided considerable input to legislative committees concerning legislation related to court revenues and the STO participated in a legislative Study Committee reviewing the entire court revenue process.
- 8) Despite continued growth in both the number and volume of deferred compensation deposits, all deposits were reconciled to the third party administrator and funds were wired within one week of receipt.

#### SC DEFERRED COMPENSATION

Calendar Year	1996	1997	1998	1999	2000
Contributions Transmitted	\$77,466,870	\$89,601,287	\$99,817,347	\$111,031,533	\$136,202,466
Reporting Entities	520	531	547	562	572

- 9) Over 48 pieces of legislation were reviewed and analyzed during the fiscal year related to Accounting and Banking matters.

## ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001

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**Program Name:** Investments

	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
<b>Program Cost:</b>			
State Funds	\$565,220	\$538,651	\$614,106
<b>FTE's:</b>	10	9	9.6

**Goals:**

- Programs are managed in accordance with the South Carolina Code of Laws, 1976, as amended, Section 11-9-660, among other laws.
- To invest all State funds pursuant to statutory authority, including the South Carolina Retirement Systems portfolios, which are structured to meet the long-term nature of pension obligations.

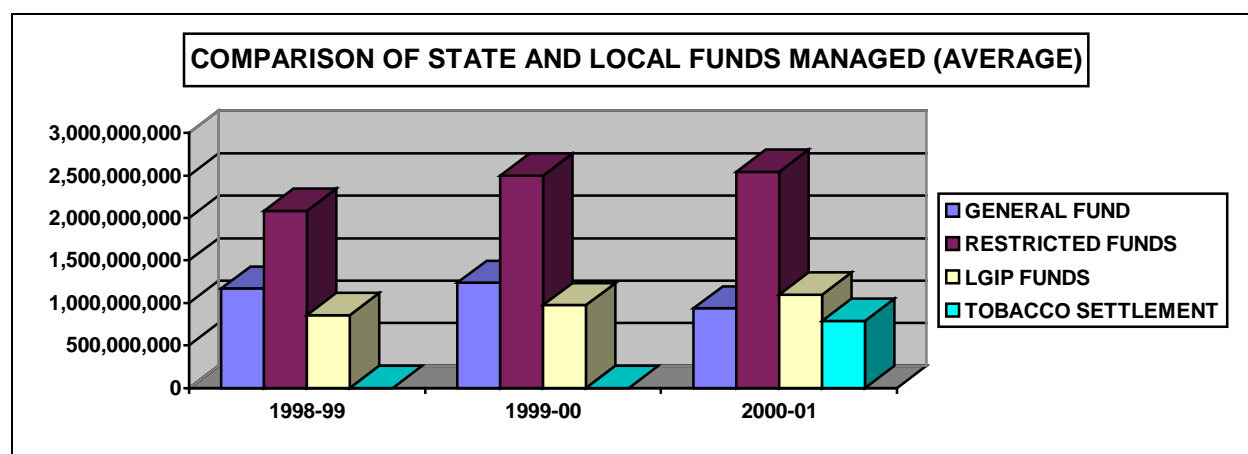
**Objectives:**

- Provide professional investment services for all funds under management through efficient utilization of available resources.
- Obtain the best yield within prescribed parameters, meeting or exceeding the benchmarks, while preserving capital.
- Maintain adequate liquidity for cash needs.
- Manage cash flow to optimize earnings for the State.
- Meet or exceed the budgetary earnings projection for the year.
- Maintain adequate collateral to secure State funds deposited in financial institutions.

**Results:**

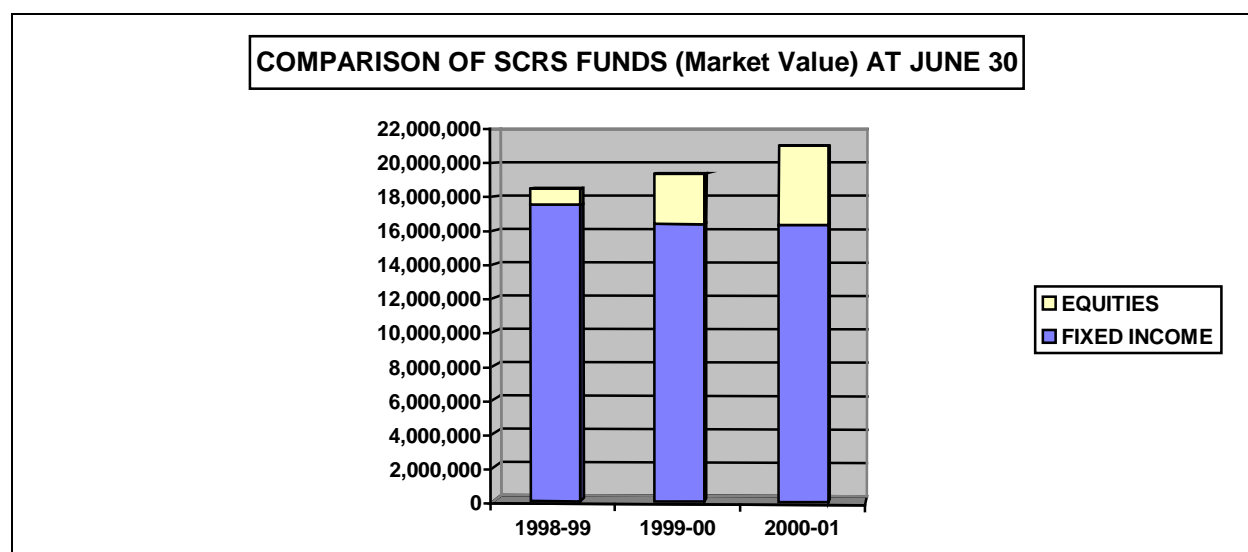
Cost of Investment Management	
	Funds Managed
<b>Cost of Investment Program</b>	
General Funds	\$614,106
SCRS	\$671,678
<b>Total Cost</b>	<b>\$1,285,784</b>
<b>Funds Managed (excluding LGIP)</b>	<b>\$20,602,386,899</b>
<b>Cost as % of Funds Managed</b>	<b>.0062%</b>

# ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001



New for this year was the investment of the proceeds of the Tobacco Settlement Asset Backed Bond issue. The original amount was approximately \$785 Million of which \$637 Million is invested in tax-exempt securities. The remaining is invested in taxable securities.

	<u><b>FY 1998-1999</b></u>	<u><b>FY 1999-2000</b></u>	<u><b>FY 2000-2001</b></u>
<u><b>Workload - State and Local</b></u>			
General Funds Managed (Average)	\$1,167,750,838	\$1,236,736,766	\$934,857,001
Restricted Funds Managed (Average)	\$2,081,920,063	\$2,499,902,027	\$2,543,585,745
Tobacco Funds Managed			\$785,750,514
LGIP Funds Managed (Averaged)	\$857,206,278	\$972,791,245	\$1,098,217,232
# State and Local Portfolios Managed	19	19	22
Total # of Investment Trades	3,584	2,605	2,442

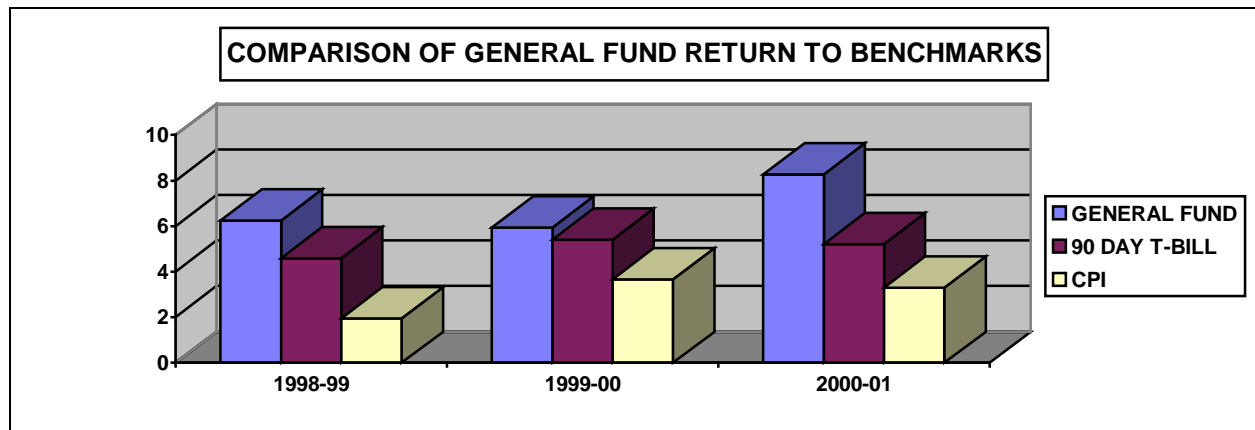


<b>SCRS Funds at June 30<sup>th</sup></b>	<u><b>FY 1998-1999</b></u>	<u><b>FY 1999-2000</b></u>	<u><b>FY 2000-2001</b></u>
Fixed Income Managed Internally	\$17,533,272,627	\$16,389,908,792	\$16,338,193,639
Equities Managed Externally	938,460,015	2,969,435,655	4,658,496,312
SCRS Total Funds	\$18,471,732,642	\$19,350,271,345	\$20,996,689,951
# Retirement Portfolios Managed (Fixed)	4	4	4
External Equity Managers	1	14	14



**General and Local Funds Performance**

- General Fund investment performance exceeded benchmarks.
- BidSC program continues to be a great success. The CD auction is held quarterly resulting in increased earning for the State of over \$512,000. Participation was opened up to the Credit Unions during this fiscal year.
- Earnings on General Fund investments were \$77,235,779 which surpassed the investment earnings projection of \$71 million by over \$6.2 million. \$5,252,969 of income was realized gain from sale of securities. This sale was necessitated by the reduction in General Fund balances by approximately \$860 million over the 14-month period. Interest earned on General and Earmarked accounts is credited to the General Fund for the support of General Fund Appropriations
- The State’s Local Government Investment Pool (LGIP) earned a rate of 5.78% as compared to the average benchmark investment rate of 5.21% (90 day Treasury Bill Rate).

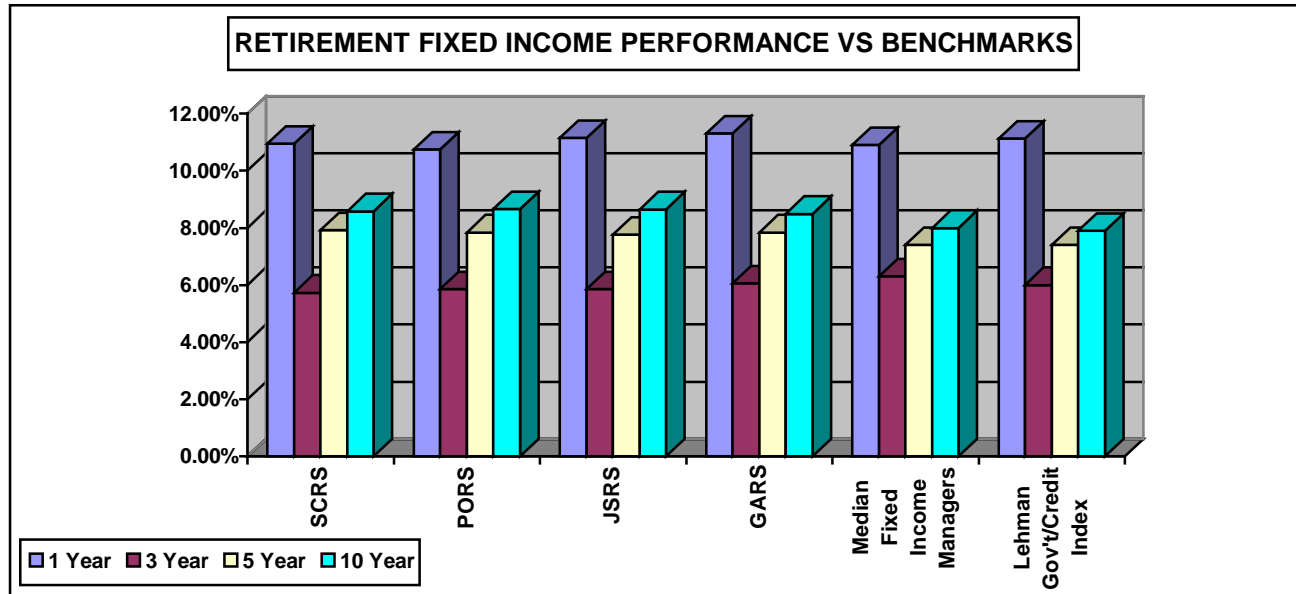


**Return on General Fund Investments vs. Benchmarks**

	<b>FY 1998-1999</b>	<b>FY 1999-2000</b>	<b>FY 2000-2001</b>
Rate of Return (Cash-Basis)	6.26%	5.95%	8.26%
<u>Benchmarks:</u>			
90-Day T-Bill Rate	4.59%	5.41%	5.21%
Consumer Price Index	1.96%	3.66%	3.31%

## Retirement Fixed Income Investment Performance

SCRS Fixed Income returns exceeded the benchmarks for the 5 and 10 year periods. The 1 and 3 year returns show under-performance to the benchmarks due to the requirement of holding excess cash and equivalents to fund the equity program. Returns without cash exceeded all benchmarks.



### Return on Retirement Fixed Income Investments vs. Benchmarks

	1 Year	3 Year	5 Year	10 Year
Total Rate of Return				
SCRS	10.95%	5.73%	7.92%	8.58%
PORS	10.75%	5.86%	7.84%	8.66%
JSRS	11.15%	5.85%	7.77%	8.65%
GARS	11.31%	6.06%	7.84%	8.49%
<u>Benchmarks:</u>				
Median Fixed Income Managers	10.90%	6.30%	7.40%	8.00%
Lehman Gov't/Credit Index	11.13%	6.00%	7.40%	7.90%

1 Source: Jamison Eaton & Wood

2 Source: William M. Mercer Investment Consulting, Inc.

3 Source: Bloomberg

**Retirement Equity Investment Performance**

The Equity Program of the Retirement Systems is administered in accordance with the Annual Investment Plan recommended by the Equity Investment Panel (in conjunction with the consultant, William M. Mercer Investment Consulting, Inc.) and approved by the Budget & Control Board.

**Return on Retirement Equity Investments vs. Benchmarks**

<b>Passive</b>	<b>Return</b>	<b>Benchmark</b>	
State Street	-14.80%	-14.83%	S & P 500
<b>Active (Large Cap)</b>			
Flippin	23.89%	10.33%	Russell 1000 Value
ICAP	12.55%	10.33%	Russell 1000 Value
Bernstein	11.61%	-14.83%	S & P 500
Wellington	-5.99%	-14.83%	S & P 500
J P Morgan	-11.23%	-14.83%	S & P 500
Montag/Caldwell	-16.20%	-36.17%	Russell 1000 Growth
Peachtree	-28.83%	-36.17%	Russell 1000 Growth
<b>Active (Smaller Cap)</b>			
Kaplan	25.19%	30.80%	Russell 2000 Value
Boston Co.	31.09%	25.17%	Russell 2500 Value
Suffolk	-33.62%	-23.34%	Russell 2000 Growth
MFS	-12.40%	-23.98%	Russell 2500 Growth
Farrell	3.83%	0.57%	Russell 2000
		2.44%	Russell 2500
Fidelity	0.74%	0.57%	Russell 2000

- All portfolios maintained adequate liquidity to immediately meet every cash withdrawal requested.
- All deposits were properly collateralized

## ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001

**Program Name:** Debt Management

<b>Program Cost:</b>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
State Funds	\$217,530	\$236,834	\$279,659

<b>FTE's:</b>	4	4	4.15
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**Program Goals:**

- Coordinate communications with bond-rating agencies to maximize the State’s credit rating.
- Manage all debt issues for the State, its agencies and institutions to optimize debt structure and assure timely debt payments.
- Assure compliance with legal requirements, including Arbitrage Rebate and Constitutional Debt Limit.

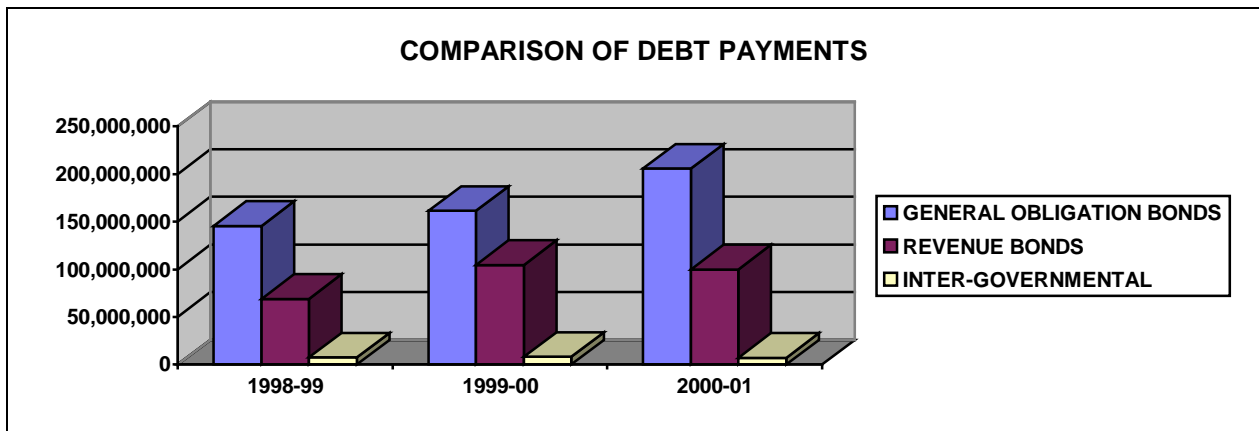
**Program Objectives:**

1. Pay all debt on time.
2. Analyze the markets and structure the debt to assure the lowest rate of interest is paid.
3. Close all debt issues by the required deadline.
4. Process all Capital Improvement Project draws as requested by the agencies.
5. Process all South Carolina Housing Finance and Development Authority and Education Assistance Authority transactions as requested by the agencies
6. Assure outstanding debt does not exceed the State’s constitutional debt limit.
7. Provide information to the credit agencies on a timely basis.

**Key Results:**

1. All debt payments were promptly made and compliance with Federal arbitrage requirements was certified.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
Debt payments			
Total General Obligation Bonds	\$145,661,429	\$161,151,321	\$205,507,999
Capital Improvement Bonds (incl. above)	\$124,777,716	\$128,803,450	\$145,277,397
Revenue bonds	\$ 68,904,863	\$104,436,787	\$ 99,811,059
Inter-Governmental	\$ 7,601,295	\$ 8,247,936	\$ 7,320,953



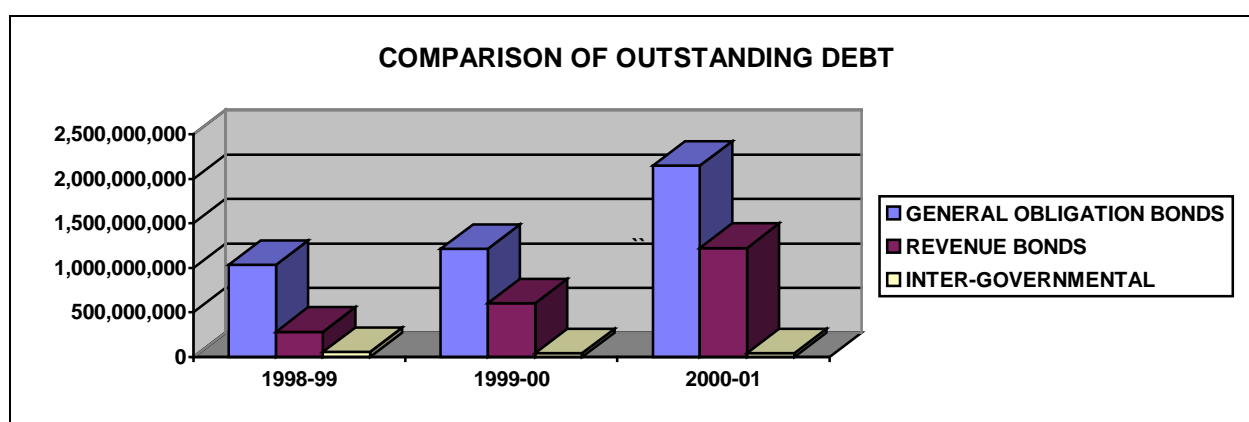
## ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001

- (Performance measures to demonstrate the effectiveness of the structuring decisions made, such as comparing the rate obtained to the Municipal Market Data (MMD) Curve for AAA municipal bonds, are being developed.)
- Despite a 75% increase in the number of issues handled, all bond issues were closed as scheduled.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
New GO bond issues closed	2	4	7
New Revenue bond issues closed	6	6	13
New Inter-Governmental debt issues closed	3	2	1
Total issues closed	11	12	21

Note: In addition, the STO serves as advisor on some issues for which the office does not serve as Trustee. Those issues represent additional workload not reflected in this schedule

Bond issues refunded/defeased	2	0	0
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<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
Outstanding debt			
General Obligation bonds	\$1,214,564,400	\$1,487,398,700	\$2,146,692,700
Revenue bonds	\$ 604,916,798	\$ 959,862,594	\$1,224,682,316
Inter-Governmental	\$ 45,056,661	\$ 41,882,435	\$ 40,734,165

Total Indebtedness issues managed:	149	125	120
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Note: FY99 included some issues on the Debt Management System for which the Treasurer does not serve as Trustee. Future reports will exclude such issues.

- Despite a 140% increase in the number of draws requested, all agency requests to draw bond proceeds were processed within 24 hours of receipt.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
Number of Capital Improvement Project draws and refunds	2,814	2,381	5,734
Amount of Capital Improvement Project draws and refunds	\$304,021,577	\$526,153,258	\$1,083,883,214

## **ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001**

5. Despite a 63% increase in transactions requested, all South Carolina State Housing Finance and Development Authority and Education Assistance Authority transactions were processed within 24 hours as requested by the agencies.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>
Number of Housing Authority and Education Assistance Authority daily transactions	1,244	1,549	2,527

6. The Senior Debt Manager estimates approximately 200 man-hours were spent analyzing the effect on the debt limit of various borrowing scenarios proposed during the budget process in FY01. Analytic software used by the office allows the various “what if” scenarios to be run with same-day turn around to the decision-makers.
7. The State Treasurer is in constant contact with the rating agencies and responds to all requests for information on a timely basis. During FY01, the Treasurer made several presentations to the rating agencies, particularly as related to the Tobacco securitization.

# ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001

**Program Name:** Unclaimed Property Program

<b>Program Cost:</b>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY2000-01</u>
Other Funds	\$697,537	\$734,146	\$707,704

<b>FTE's:</b>	7	7	7
Temporary Employees	6	4	4

**Program Goals:**

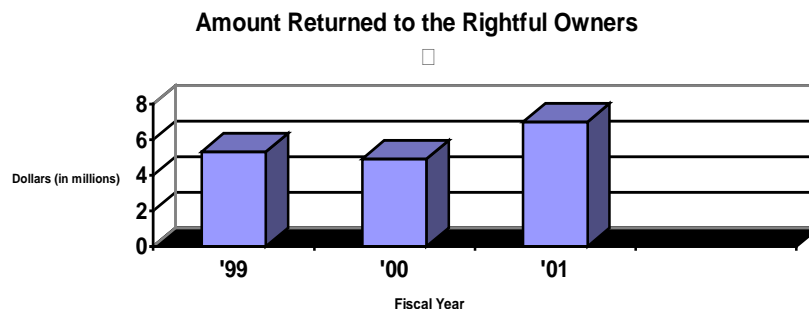
- Public awareness of the program.
- Make payment of funds to rightful owners in most efficient manner
- Process receipt of unclaimed funds from holders.
- Meet or exceed budget projections for General Fund transfer.

## Program Objectives:

- 1) Increase public awareness of the program utilizing the most efficient methods.
- 2) Expand services available through the Internet thus making it easier for the public to submit claims while keeping the cost of services down.
- 3) Increase research efforts particularly on large accounts to return more property to the rightful owners.
- 4) Decrease the turn around time necessary to pay a claim.
- 5) Increase the number of holders utilizing the electronic reporting features of the system thereby reducing the risk of input errors, the cost of processing receipts, and the time between reporting property and making it available for claims
- 6) Analyze the reserve requirements for paying expenses and claims and increase the amount of unclaimed funds turned over to the General Fund, if possible.

## Key Results:

- 1) Increased the probability that money will be claimed by rightful owners through:
  - a) Participation in [www.missingmoney.com](http://www.missingmoney.com), a national database search, thus providing another option for locating unclaimed property.
  - b) In collaboration with WLTX TV, produced “Big Money Mondays” which joined owners with their funds and increased public awareness of the Program.
- 2) Added the capability for claimants to print claim forms from the web page, thus reducing the cost of staff time to print and mail claim forms, telephone inquiries, and the cost of supplies and postage.
- 3) Combined with other outreach efforts, by placing special emphasis on finding owners of the larger sums (over \$1,000) of unclaimed property, claims paid increased 41% compared to those paid in the previous year.

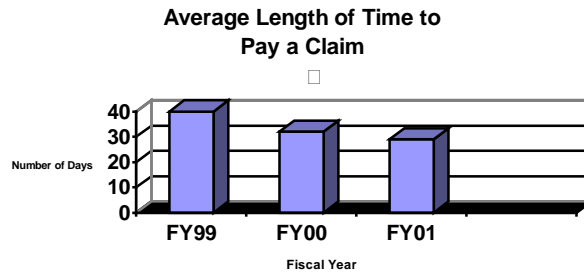


Claims Paid/FTE	\$407,784	\$448,744	\$636,948
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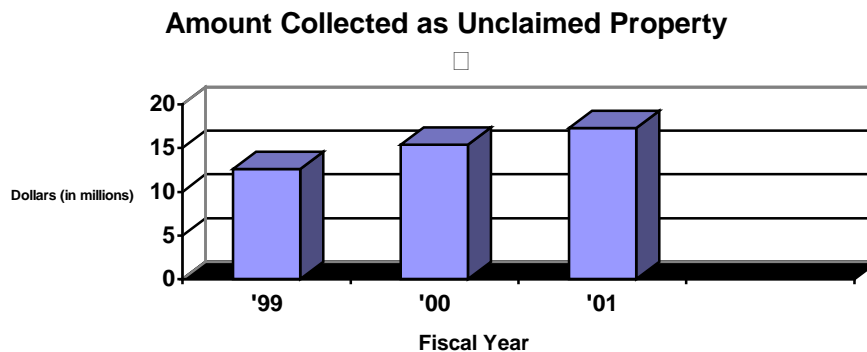
## ANNUAL ACCOUNTABILITY REPORT – STATE TREASURER’S OFFICE - FY 2001

\*The amount of claims paid will fluctuate from year to year contingent upon: the amount of media attention the program receives; the frequency and success of public outreach efforts; the amount of reciprocal payments made to other states; and/or an unusually high one-time holder remittance (which results in unusually high claims in the period immediately following the remittance).

- 4) Reduced average length of time to pay a claim from 32 days in FY1999-00 to 29 days in FY2000-01.

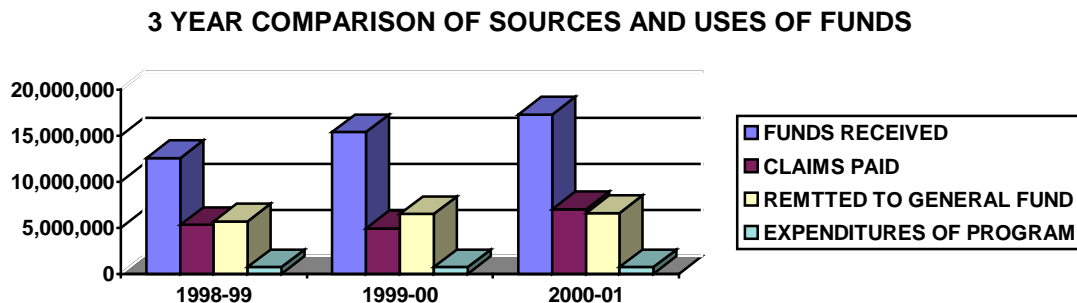


- 5) Through proactive outreach efforts (increased communications and training) with holder community, 452 holders (19% of holders reporting in FY2000) filed their reports electronically, reducing the number of records to be manually keyed.



Dollars Collected/FTE    \$967,711            \$1,297,317            \$ 1,573,558

- 6) Based on analysis of receipts, claims experience, expenditures of the program, and reserves necessary, the STO regularly reviews the amount available for transfer to the General Fund.





Human Resource Focus

